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REPORT OF THE COMMITTEE ON INVISIBLES
AND FINANCING RELATED TO TRADE

Statement by the representative of the International
Bank for Reconstruction and Development

World Bank Transfers to the International Development Association

The distinguished delegate for Ceylon raised the question on the subject of a recent announcement by the World Bank concerning the allocation of $10 million for the purposes of IDA. In the following, I would like to give the committee some background information on this operation.

1. As the committee knows, the funds the Bank uses for lending operations are provided from two main sources:

(a) one is the paid-in capital of the Bank, paid in by the members;

(b) the bulk of the amounts the Bank uses is money borrowed on the market. Most of this money is borrowed through the sale of obligations. In short, the Bank lends borrowed money.

2. This is the principle, and it would be quite simple, were not practice a little more complicated than that. If Bank lending depended only on its ability to borrow, the Bank would have no difficulty in raising money, because the Bank's creditworthiness is considered everywhere as first class.

Unfortunately, Bank borrowing does not only depend on its creditworthiness, it also depends on government decisions; the Bank is only allowed to go to a market if the government agrees to it, and in recent times, governments have become more and more hesitant to allow the Bank to issue bonds on their market.

3. Being a banking institution, the Bank must plan ahead the way its lending operations will be carried out in future years. It is the responsibility of the executive directors, who represent all the member countries of the Bank, to make proposals to the Board of Governors on the policy to be followed. I emphasize the fact that this policy is discussed by the Board of the Executive Directors and is submitted for final approval to the Board of Governors, who represent all the member countries and who generally meet once a year at the annual meeting of the Bank.

In recent years, when the net income of the Bank was satisfactory and there was no reason to doubt that the sale of new obligations would be allowed, the transfer of a part of the Bank's net income was decided each year in favour of IDA. The policy statement on this subject contained, however, the provision that future transfers would only be made out of the year's net income not needed for allocation to reserves, or otherwise required to be retained in the Bank's business and which could therefore be prudently distributed as dividends.

4. This does not seem to be the case now. Although, I repeat, the situation of the Bank as potential debtor has remained as good as ever, for considerations which lie outside the Bank, the member governments find it more and more difficult to authorize the issues of new bonds on their market.

As the Bank's undisbursed commitments - as of the end of the fiscal year 1967 - were $2,393 million, the President of the Bank estimates that to meet disbursement commitments and maturing public debt of the Bank, at least $400 to $500 million new funds will be needed yearly for the next few years.

This is an important amount of money and, for reasons I have tried to explain, under present tight money market conditions, it might become difficult to raise all of it against bonds. That is why the Executive Directors decided to recommend to the Governors, to allocate the current income of the Bank, with the exception of the $10 million, to the Supplemental Reserve of the Bank, thereby reducing correspondingly the need for bond issues.

5. I am authorized to add, Mr. President, that this recent action taken by the Board does not establish a precedent for the future. If and when the access to money markets becomes again easier, we are hopeful that our Board can recommend transfers of more important amounts to IDA out of the then current income of the Bank.